This Is the Best Canadian Renewable Energy Stock – But Should You Buy It?

Description

What would you invest in if you knew what the future of energy production looked like — and it was totally different from today's system?

Looking at how the global economy might shake out, and the ways in which energy production may have to change to meet and overcome new and existing challenges may give some indication of growth areas of the future. Is it possible to take those sectors and try to identify which extent companies might morph into moving parts of the future energy economy?

Below are a few ideas of how energy production may look different in the future, as well as one key Canadian stock to own to take advantage of the most likely growth areas to arise in the coming years.

Sustainable energy is already big business

Look at lithium and cobalt mining for one thing: even as some researchers are scrabbling to replace these commodities to build cheaper alternatives, the rise of the lithium-ion battery continues. Driven by rechargeable items such as laptops, phones, and electric vehicles, both lithium and cobalt prices could end up getting very high.

And don't overlook copper, either. This once low-cost metal is found in generators all over the word, as well as in cables and transformers, and much more. Going fully electric and bypassing the old world of the combustion engine will see copper prices shoot up, too. Likewise, silicon is a key component that will surge as the energy revolution picks up steam.

But perhaps the biggest future growth area in energy is that of renewables. Wind, wave, and solar technology are likely to be the longest-lasting of the current clean energy sources. And while fossil fuels still have the monopoly today, the old system of combustion-driven power can't last forever. In short, a green energy revolution has already begun.

Which green energy stock is the best value today?

Northland Power (TSX:NPI) is still trading at a deep discount of over 50% compared to its future cash flow value, thereby adding up to a stock that continues to look like great value in terms of its outlook. However, its multiples seem to tell a different story. A fairly normal P/E of 19.4 times earnings beats the industry average, but lags the TSX, while a PEG of 1.2 times growth isn't too bad when you factor in a 16.2% expected annual growth in earnings.

However, Northland Power's P/B of 5.2 times book is a little off-putting, and may count this stock out for any value investors out there who go by assets first. After all, do you really want to buy a stock for five times what it's really worth? The P/B ratio is a pretty clear indicator of value for any stock that is heavily weighted by physical inventory, as it pinpoints how much of the market value is based on factors other than real life nuts and bolts.

A dividend yield of 5.28% makes this a stock to stash in your TFSA or RRSP, while a return on equity of 23% last year shows a good use of shareholders' funds. All round, Northland Power is looking like a buy today.

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